

**LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

200 W. Washington, Suite 301
Indianapolis, IN 46204
(317) 233-0696
<http://www.in.gov/legislative>

FISCAL IMPACT STATEMENT

LS 6066

BILL NUMBER: HB 1171

NOTE PREPARED: Feb 1, 2013

BILL AMENDED: Jan 31, 2013

SUBJECT: Research and Development Property.

FIRST AUTHOR: Rep. Heuer

FIRST SPONSOR:

BILL STATUS: CR Adopted - 1st House

FUNDS AFFECTED: **GENERAL**
 DEDICATED
FEDERAL

IMPACT: State & Local

Summary of Legislation: (Amended) This bill expands the Sales Tax exemption for research and development equipment to include any tangible personal property directly or indirectly used for research and development, regardless of whether the person acquiring the property is the ultimate manufacturer or seller of the product that is the subject of the research and development.

Effective Date: July 1, 2013.

Explanation of State Expenditures: (Revised) This bill could increase administrative costs of the Department of State Revenue (DOR), as the DOR may need to amend Sales Tax forms and instructions to expand the exemption. The bill's requirements are within the agency's routine administrative functions and should be able to be implemented with no additional appropriations, assuming near customary agency staffing and resource levels.

Explanation of State Revenues: (Revised) *Summary:* The bill could decrease Sales Tax revenue by approximately \$11.9 M annually. The table below shows estimated Sales Tax revenue losses due to expanding the exemption to include any tangible personal property used directly or indirectly for research and development. The figures shown below are based on underlying research and development equipment spending projected through 2015 based on historic spending totals. Spending that is currently exempt from the Sales Tax is not included in the totals.

FY	Estimated Spending on Research and Development Equipment	Estimated Sales Tax Revenue Loss
2014	\$170,458,073	\$11,932,065
2015	169,385,995	11,857,020

These estimates are derived from recent U.S. annual investment in equipment, including certain information processing equipment, industrial equipment, certain transportation equipment, and other equipment such as furniture and fixtures and various machinery. The investment total for these categories is apportioned for equipment used for research and development. A share of the U.S. annual investments was allocated to Indiana based on Indiana's GDP relative to total U.S. GDP.

(Revised) *Background:* This bill expands the current Sales Tax exemption for certain tangible personal property purchased for research and development activities. Under current statute, the following items purchased for research and development activities are exempt from the Sales Tax: laboratory equipment, computers, computer software, telecommunications equipment, and testing equipment. The bill expands the exemption to cover any other tangible personal property that is purchased for the purpose of research and development activities devoted directly or indirectly to experimental laboratory research and development.

Sales Tax revenue is deposited in the state General Fund (99.848%), the Commuter Rail Service Fund (0.123%), and the Industrial Rail Service Fund (0.029%). Total revenue from the Sales Tax in FY 2012 was about \$6.6 B.

Explanation of Local Expenditures:

Explanation of Local Revenues: Local revenues would decrease to the extent that a local unit receives funds from the Commuter Rail Service Fund or the Industrial Rail Service Fund.

State Agencies Affected: Department of State Revenue.

Local Agencies Affected:

Information Sources: U.S. Bureau of Economic Analysis; National Science Foundation.

Fiscal Analyst: Lauren Sewell, 317-232-9586.